

OFFICE OF THE CITY CONTROLLER



**PUBLIC WORKS AND ENGINEERING DEPARTMENT
PURCHASING CARD ACTIVITY COMPLIANCE AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

June 25, 2009

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Public Works and Engineering Department
Purchasing Card Activity Compliance Audit (Report No. 2009-26)

Dear Mayor White:

The City Controller's Office Audit Division has completed a compliance audit of the Public Works and Engineering Department's (Department) Purchasing Card (P-Card) activities. The audit objectives were to evaluate the Department's compliance with applicable executive orders and City of Houston (City) administrative policies and procedures related to P-Cards. Also, the auditors evaluated the adequacy of internal controls related to the processing of P-Cards.

The report, attached for your review, concludes that internal controls over P-Cards activities are adequate at the Department and provide management with reasonable assurance that P-Card activities are performed in accordance with applicable City executive orders and administrative policies and procedures, except for the findings presented in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The views of responsible officials as to actions being taken are appended to the report as Exhibit I.

We commend the Department for taking immediate steps to implement our recommendations. Also, we appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Michael Marcotte, Director, Public Works and Engineering Department
Michelle Mitchell, Director, Finance Department
Alfred Moran, Director, Administration and Regulatory Affairs Department

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PURPOSE AND SCOPE

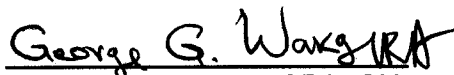
The Audit Division of the City of Houston Controller's Office has completed an audit of the Public Works and Engineering Department's (Department) Purchasing Card (P-Card) activities. Our objectives were to evaluate the Department's compliance with applicable executive orders and City of Houston (City) administrative policies and procedures related to P-Cards. Also, we evaluated the adequacy of internal controls related to the processing of P-Cards. The audit scope period was from July 6, 2007 through July 5, 2008.

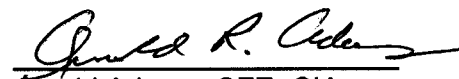
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with procedures and the adequacy of internal controls related to P-Card activities.


Department management is responsible for establishing and maintaining a system of internal controls to ensure compliance with the City's administrative policies and procedures and executive orders. The objectives of a system are to provide management with reasonable, but not absolute, assurance that P-Card expenses are approved, computed, supported, and reported in compliance with applicable executive orders, administrative procedures, and departmental standard operating procedures, if any.

CONCLUSION

Based on the results of our audit, we conclude that internal controls over P-Card activities are adequate at the Department and provide management with reasonable assurance that P-Card activities are performed in accordance with applicable City executive orders and administrative policies and procedures, except for the findings presented in the body of the report.


George G. Wakgira, CPA, CIA
Auditor-in-charge


Arnold Adams, CFE, CIA
Audit Manager


Steve Schoonover, CFE
City Auditor

INTRODUCTION

An Administrative Manager in the Material Management Branch, Resource Management Division of the Department serves as the P-Card Coordinator and is responsible for overseeing the Department's P-Card activities. Specifically, the P-Card Coordinator performs the following functions:

- Monitors the issuance of P-Cards to employees
- Distributes the monthly reconciliation statements to the P-Cardholders for review
- Monitors the purchasing activities of the P-Cardholders
- Ensures that the P-Card Program Administrator, at the Strategic Purchasing Division (SPD) in the Administration and Regulatory Affairs Department, receives notification that the activity is reconciled and is in compliance with the City's policies and procedures related to P-Cards

A request for a new P-Card is initiated when an employee completes an Internal Cardholder (Employee) Agreement Form and routes it to an Approving Manager, Division P-Card Coordinator, Department P-Card Coordinator, and then to the P-Card Program Administrator at the SPD for approval and processing. The same approval route is followed when submitting reconciled monthly reconciliation statements, canceling P-Cards, processing disputed purchases, changing P-Card status, and reporting lost or stolen P-Cards. However, in the case of lost or stolen P-Cards, the incident is immediately reported to the bank.

Pathway Net/J.P. Morgan Chase (Pathway) is the P-Card software used to manage important P-Card functions from any computer on the City's network. Pathway is primarily designed to be used by P-Cardholders, approving managers, division coordinators, department coordinators, and by the P-Card Program Administrator. Pathway is used to:

- Create new P-Cards
- Maintain the most current list of P-Cardholders
- Maintain the purchasing profiles of all P-Cardholders
- View and edit P-Card information
- Run a wide variety of reports
- Map P-Card transactions to the City's SAP System
- Perform other P-Card-related tasks

The single P-Card purchase limit for non-contract purchases was \$2,000 while the monthly limit was \$5,000. There is no single-transaction limit for contract purchases. Non-contract purchases from a single merchant, over a period of 12 months, should not exceed the competitive bidding requirement limit of \$50,000.

The total of the P-Card purchases for the audit scope period, July 6, 2007 through July 5, 2008, was approximately \$10.6 million of which \$7.5 million (70%) were contract purchases and \$3.1 million (30%) were non-contract purchases. The average single P-Card transaction was \$652 while the minimum was less than \$1. The maximum single P-Card transaction was approximately \$569,000, a contractually required payment under NAPA Auto Parts contract OA 46-00000245, and \$2,000 for non-contract purchases.

There were 7 divisions with 18 P-Card coordinators and 344 P-Cardholders at the Department. These P-Cardholders had 16,237 transactions during the scope period. There were 5,836 contract-related and 10,401 non-contract P-Card transactions.

In order to accomplish the scope and objectives of this audit, we performed the following procedures:

- Obtained, reviewed, and followed up on previous audit recommendations
- Reviewed the City's administrative procedures, executive orders, and state laws related to P-Card activities
- Conducted a fraud consideration session to consider the potential risks involved in P-Card activities
- Met with SPD personnel to obtain their input and solicit concerns they had regarding the P-Card activities at the Department
- Administered an internal control questionnaire to the Departmental P-Card Coordinator to assess the internal controls within the Department's P-Card program
- Obtained and reviewed Departmental flowcharts depicting the various P-Card processes
- Tested the following controls on sample bases:
 - P-Card approval process
 - Monthly statement reconciliation process
 - Lost/Stolen P-Cards process
 - P-Card Disputes/Resolutions process
 - P-Cards Cancellation/Termination process
 - P-Cards payable account reconciliation process
- Identified and documented internal control strengths and weaknesses
- Apprised Departmental management of issues as they developed using Interim Audit Memoranda throughout the audit
- Tested a sample of P-Card transactions and determined compliance with the City's administrative policies and procedures related to P-Cards
- Verified all P-Card purchases were within the allowable limits for single and monthly transactions for both contract and non-contract purchases
- Verified that all purchases were allowable and prohibited purchases, if any, had prior approvals from the Mayor's office
- Ensured purchases of hazardous materials using P-Cards were accompanied by material safety data sheets (MSDS)
- Determined if all departmental P-Card transactions during the audit scope period were posted accurately and timely in the City's ledger
- Identified non-contract purchases from single vendors that exceeded \$50,000 over a one-year period
- Using Audit Command Language software, compared the actual P-Cards used during the audit scope period against the authorized list of P-Cards maintained by the P-Card Program Administrator
- Verified the accuracy of the P-Card expense accruals and reversals recorded in the City's ledger during the audit scope period

AUDIT BACKGROUNDS, FINDINGS, AND RECOMMENDATIONS

I. LOST OR STOLEN PURCHASING CARDS

BACKGROUND

EO 1-42: Purchasing Card Policy and Procedures (P-Card), Sections: (18.0) states, "When it is determined that a P-Card has been lost or stolen, it is imperative to cancel the card with the Bank 1-800 number and then notify the Department Purchasing Card Coordinator on "Lost/Stolen Form" to be forwarded to the Procurement Card Program Administrator. (Exhibit 2) The Cardholder will complete a Purchasing Card Lost/Stolen Card Form and forward the form to the Cardholder's Approving Manager. It is imperative to cancel the card immediately because City's liability on lost or stolen cards is not capped. The City is liable for all charges until the card is reported lost or stolen. Thus, the Cardholder to whom the P-Card is issued will be responsible for all charges made against the P-Card from the time it is lost or stolen until the Bank is notified"

FINDING

We reviewed three instances of lost/stolen P-Cards for three P-Cardholders and we noted the following:

- a) Two of the three lost/stolen cards were not reported on Internal-Lost/Stolen Card Forms as required by EO 1-42.
- b) Purchasing Card Information Record Forms were not completed to cancel one of the three lost/stolen cards.
- c) An Internal Cardholder (Employee) Agreement Form was not completed to replace one of the three lost/stolen cards.

RECOMMENDATION

Department management needs to ensure that all lost/stolen P-Card incidents are reported timely and documented adequately.

II. COMPETITIVE BIDDING LIMIT REQUIREMENT

BACKGROUND

The State of Texas Statutes Chapter 252.21, Subchapter B. Competitive Bidding or Competitive Proposals Required, states that an expenditure of more than \$50,000 requires a contract. In other words, P-Card purchases of more than \$50,000 from non-contract vendors need to comply with the State of Texas competitive bidding limit requirement.

FINDING

During our review of the PWE P-Card transactions for the audit scope period, we noted P-Card purchases of \$73,642 and \$55,854 respectively from two non-contract vendors.

We also noted this to be a repeat finding for the third consecutive year since the two vendors mentioned above were listed as two of the merchants that exceeded the \$50,000 limit in the PWE's Internal Review

**Public Works and Engineering Department
Purchasing Card Activity Compliance Audit**

Section's annual review for the years ending July 5, 2006, July 5, 2007, and on this most current report.

The audit team recognizes the progress made by the Department in reducing the number of vendors exceeding the \$50,000 threshold over the previous three years.

RECOMMENDATION

Department management needs to improve controls so that when P-Card expenditures approach the \$50,000 limit, further purchases from those vendors are not allowed.

EXHIBIT I



CITY OF HOUSTON

Department of Public Works &
Engineering

Interoffice

Correspondence

To: Annise Parker
City Controller

From: Michael Marcotte, PE, D.WRE, BCEE
Director

Date: May 22, 2009

Subject: PURCHASING CARD ACTIVITY
COMPLIANCE AUDIT

We have completed our response to your audit of the Purchasing Card Activity Compliance Audit for the period July 6, 2007 through July 5, 2008. We appreciate the following recommendations made by your auditors:

Finding I – Lost or Stolen Purchasing Cards

Recommendation:

Department management needs to ensure that all lost/stolen P-Card incidents are reported timely and documented adequately.

Response:

In each case the P-Card issuer bank was contacted immediately to cancel the card to prevent unapproved charges. We concur with the finding regarding incomplete City of Houston internal documents. In the event of a future lost/stolen card the Division Coordinator will be instructed to follow-up with the cardholder and ensure that proper documentation is submitted in a timely manner.

Finding II – Competitive Bidding Limit Requirement

Recommendation:

Department management needs to improve controls so that when P-Card expenditures approach the \$50,000 limit, further purchases from those vendors are not allowed.

Response:

We concur. The internal controls currently in place require the P-Card Coordinators office to test accumulated expenditures each month end for comparison to the non-contract bid limit and notify cardholders when the spending limit is approached. The Department has implemented a more stringent monitoring and notification system.

Handwritten signature of Michael Marcotte in black ink.

Michael Marcotte, PE, D.WRE, BCEE
Director

cc: Waynette Chan, Chief of Staff
Susan Bandy, Deputy Director
David Guernsey, Assistant Director
Godwin Okoro, Deputy Assistant Director
Elaine Benson, Administrative Manager

*Views of Responsible
Officials*